

Arizona Department of Insurance

2004 Market Monitoring

Volume 3, Issue 2

Homeowners' Insurance

July, 2005

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I. Rate System:

Under Arizona's "open competition" law, applicable to Homeowners' (HOs) insurance, insurers are prohibited from charging excessive, inadequate or unfairly discriminatory rates or rates that will have the effect of destroying competition or establishing a monopoly. As a matter of law, a rate cannot be found to be excessive if "a reasonable degree of price competition" ("RDPC") exists at the consumer level. A competitive market is presumed to exist unless the Director, after a public hearing, determines that a RDPC does not exist in the market. See Volume 2, Issue 1 for further description.

II. Market Monitoring Methodology:

The Department relies upon insurers' rate filings and their annual statements filed with the Department, insurers' responses to an annual Department survey, current trade press articles, and A.M. Best data to monitor the market. See Volume 2, Issue 1 for a more complete description of procedure and process.

Market monitoring assists the Director in determining whether competition exists and in assisting consumers with their questions and concerns about the availability of insurance.

III. Annual Statement Data:

The 2004 annual statements for all HO segments evidence that:

- Insurers' incurred losses dramatically decreased (33.79%, 2004) from the prior year (51.9%, 2003) and are at the lowest point in fourteen years.
- Only 101 insurers (107 in 2003) wrote \$100,000 or more in premium in 2004 and only 17 (19 in 2003) wrote at least 1% of the market (\$10,000,000 or more in premium).
- More insurers entered (11) the market than exited (9), but most of the entries were due to groups activating another subsidiary within their group and most of the exits were due to mergers and acquisitions.
- There are 195 insurers that could write HO insurance if they desired to, but of these only 59 (63 in 2003) are seeking new business with some intensity.
- The Top 5 HO insurers wrote 57.04% of the market.

Historical Experience (All Insurers Page 24, Line 04, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2004	\$1,017,914,297	\$966,650,063	\$341,978,123
2003	\$911,327,662	\$850,351,436	\$420,650,238
2002	\$772,230,447	\$696,864,381	\$487,672,489
2001	\$638,173,560	\$599,579,665	\$402,633,823
2000	\$561,632,365	\$540,551,401	\$354,661,111
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2004	\$326,658,224	33.79%	
2003	\$441,190,481	51.88%	
2002	\$520,693,277	74.72%	
2001	\$434,895,946	72.53%	
2000	\$341,718,425	63.22%	

IV. Survey Responses:

In 2005, 103 insurers responded to the Department's HOs' survey of which 93 with a 2004-market share of 89.24% completed the survey.

Most insurers completing surveys responded that:

- HOs is a major national line for them.
- Coverage availability is substantially the same as in 2004.
- Competition for HOs business is intense.
- HOs business is important to their presence in Arizona.
- It is easy to enter the Arizona HOs market.
- Arizona's Open Competition law is highly effective.
- Reinsurance is not a problem.
- The most current Hard Market Stage of the Underwriting Cycle negatively impacted them and influenced their decisions in HOs.
- The market shows signs of softening. About 13% of the market reported that 2005 prices have substantially decreased.
- Their national market in some manner and to some degree impacts their local HOs decisions in Arizona. Only four insurers reported that their HOs national market results do not impact their Arizona HOs decisions.
- They are actively seeking new business with some fervor.
- The number of declinations and/or non-renewals has not substantially changed since 2004. Most (85) will maintain their current underwriting approach, and two said they would begin to relax their underwriting restrictions by year-end 2005.

VI. Major HOs Market Trends:

Trend # 1: The substantial growth in direct written premium ("DWP") of some companies is due to integration in lieu of organic growth. While Arizona is a growth state and policy count did overall increase, some companies significantly increased their particular policy count, thus increased their DWP, by merger, acquisition, or assumption of business (i.e., integration) rather than by increased sales (i.e., organic growth). In one case, for example, three insurers exited the market when their HOs policies were purchased by a non-affiliated insurer which thereby dramatically "grew" its own DWP.

Trend # 2: The Top 5 continue to have a sizable portion of the market (57% 2004; 60% 2003) although some lost market share in 2004. Competition among these insurers is particularly intense. American Family Mutual IC is in third market position for the third year in a row. The Top Five's 2004 market share and rank follow:

Rank	Company	2004 Market Share
1.	State Farm Fire & Cas Co	20.38%
2.	Farmers IC of AZ	13.98%
3.	American Family Mutual IC	11.12%
4.	Allstate Indemnity Company	6.53%
5.	Allstate IC	5.03%
	Total:	57.04%

Trend # 3. In 2004 the overall Market Share Weighted Average Total Rate Change was - 1.11%, the first decrease in a number of years. In 2003, the market share weighted average total rate change for HOs was +8.59% (+16.85% in 2002 and +15.82% in 2001).

Trend # 4. Loss ratios improved in 2004. The direct incurred loss ratio was 33.79% in 2004 (51.88% in 2003; 74.72% in 2002). HOs is susceptible to unpredictable natural disasters (e.g., storms, wild fires) that can make the loss ratio vary remarkably from year to year.

Trend # 5. Insurers continue to report low historical underwriting profitability for the HOs line. Twenty insurers having 42.44% of the market responded that their underwriting profitability in HOs in Arizona has been historically low. However, this is an improvement over 2003 when 29 insurers (combined market share of 57.89%) reported similarly.

Only nine insurers, with a 4.06% market share, reported that their writing of HOs in Arizona has resulted in any meaningful underwriting profit for them. These same nine reported similarly in 2003 when their market share was 3.18%.

Trend # 6: Purchasing reinsurance does not appear to be problematic for writers of HOs.

Trend # 7: Not all insurers are writing HOs that possess the authority to write the coverage. There are 195 insurers, including the 103 to which the ADOI sent the survey, that could enter the HOs market at any time. Many already have HOs forms and rates on file with the ADOI, but for reasons of their own are simply not writing.

Trend # 8: Insurers writing HOs in Arizona continue to be exposed to increased litigation involving mold claims. In 2003, 23 insurers reported that they had been involved in a mold suit in Arizona; in 2004, 28 insurers responded that they had; and, in 2005, 37 insurers said they had.

VII. Conclusions:

A substantial number of insurers are actively seeking new business in HOs, and there are numerous latent insurers that could, at any time, begin writing the coverage. Competition for top market positions is intense. Rate differentials exist and the market appears to be softening in price. Coverage is readily available. For the most part, insurers will maintain their current underwriting approach although two insurers said they would be relaxing their standards by year-end 2005.